

# Business Situation

## Preliminary Estimates for the First Quarter 2002

**P**RODUCTION in the United States surged in the first quarter of 2002, while final sales slowed, according to the “preliminary” estimates of the national income and product accounts (NIPAs). Real gross domestic product (GDP) increased 5.6 percent (revised) after increasing 1.7 percent in the fourth quarter of 2001 (table 1 and chart 1). Final sales of domestic product increased 2.0 percent after increasing almost twice as much.<sup>1</sup>

The preliminary estimate of GDP growth is 0.2 percentage point smaller than last month’s “advance” estimate, and the preliminary estimate of final sales growth is 0.6 percentage point smaller.<sup>2</sup> Nevertheless,

*Daniel Larkins, Frederick von Batchelder, and Janet Kmitch prepared this article.*

**Table 1. Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers**

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars				Percent change from preceding quarter				
	Level				Change from preceding quarter				
	2002	2001			2002				
	I	II	III	IV	I	II	III	IV	I
<b>Gross domestic product</b> .....	<b>9,476.3</b>	<b>7.2</b>	<b>-31.3</b>	<b>38.2</b>	<b>127.7</b>	<b>0.3</b>	<b>-1.3</b>	<b>1.7</b>	<b>5.6</b>
Less: Exports of goods and services.....	1,035.4	-35.8	-56.1	-30.0	13.2	-11.9	-18.8	-10.9	5.3
Plus: Imports of goods and services.....	1,479.0	-33.6	-51.8	-28.3	44.1	-8.4	-13.0	-7.5	12.9
<b>Equals: Gross domestic purchases</b> .....	<b>9,891.0</b>	<b>10.0</b>	<b>-25.3</b>	<b>41.9</b>	<b>154.0</b>	<b>0.4</b>	<b>-1.0</b>	<b>1.7</b>	<b>6.5</b>
Less: Change in private inventories.....	-25.7	-11.2	-23.6	-57.4	93.6	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>9,902.1</b>	<b>19.9</b>	<b>-6.2</b>	<b>92.8</b>	<b>71.8</b>	<b>0.8</b>	<b>-0.3</b>	<b>3.9</b>	<b>3.0</b>
Personal consumption expenditures.....	6,592.1	39.9	15.5	96.4	51.8	2.5	1.0	6.1	3.2
Durable goods.....	996.1	15.7	2.1	81.5	-25.6	7.0	0.9	39.4	-9.6
Nondurable goods.....	1,931.9	1.4	2.6	11.6	38.3	0.3	0.6	2.5	8.3
Services.....	3,691.1	24.7	10.6	17.8	32.9	2.8	1.2	2.0	3.7
Private fixed investment.....	1,612.6	-43.9	-24.8	-49.7	-9.3	-9.7	-5.7	-11.4	-2.3
Nonresidential.....	1,218.7	-53.0	-28.9	-47.0	-26.3	-14.6	-8.5	-13.8	-8.2
Structures.....	233.5	-9.4	-5.5	-26.9	-16.4	-12.2	-7.5	-33.6	-23.8
Equipment and software.....	999.7	-44.5	-23.8	-13.8	-5.9	-15.4	-8.8	-5.3	-2.3
Residential.....	389.0	5.4	2.2	-4.5	13.0	5.9	2.4	-4.6	14.6
Government consumption expenditures and gross investment.....	1,691.0	19.6	1.1	39.8	27.1	5.0	0.3	10.2	6.7
Federal.....	590.6	2.5	4.9	15.3	15.7	1.8	3.6	11.4	11.4
National defense.....	389.2	2.1	2.9	7.9	16.0	2.3	3.2	9.0	18.3
Nondefense.....	201.5	0.5	2.0	7.3	-0.1	0.9	4.2	16.0	-0.3
State and local.....	1,099.9	16.9	-3.6	24.6	11.5	6.6	-1.3	9.6	4.3
<b>Addendum: Final sales of domestic product</b> .....	<b>9,487.4</b>	<b>17.0</b>	<b>-12.3</b>	<b>88.4</b>	<b>46.5</b>	<b>0.7</b>	<b>-0.5</b>	<b>3.8</b>	<b>2.0</b>

NOTE. Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive.

Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See “Selected NIPA Tables,” which begins on page D-2 in this issue.)

the advance and preliminary estimates paint pictures

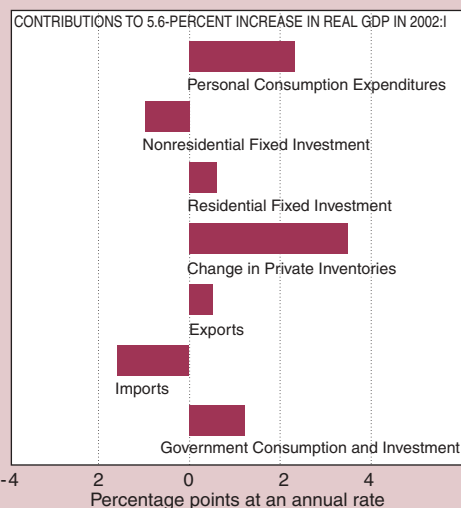
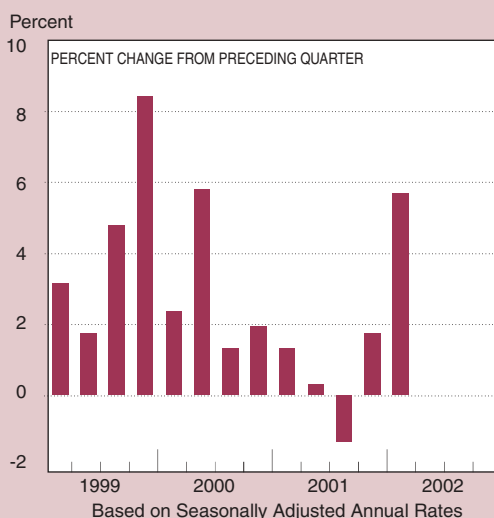
1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

2. The source data underlying the revision to GDP and its components are discussed in the section “Revisions.”

**CHART 1**

### Real Gross Domestic Product



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of the economy that are similar in many important respects. In both estimates,

- As a result of a substantial slowing in the rate of inventory liquidation, real inventory investment increased substantially and contributed more than 3.0 percentage points to the growth in real GDP (table 2).<sup>3</sup> In the preceding six quarters, inventory investment had subtracted from GDP growth.
- An increase in consumer spending contributed more than 2.0 percentage points to GDP growth in the first quarter.<sup>4</sup> Increased purchases of nondurable goods and of services more than offset decreased purchases of durable goods. In the fourth quarter, purchases of durable goods had increased very sharply, mainly on the strength of an exceptional rise in motor vehicle purchases.
- An increase in government spending contributed more than 1.0 percentage point to GDP growth. An increase in Federal Government spending was concentrated in national defense; an increase in State and local government spending was attributable both to structures and to equipment and software.

3. In the NIPA's, inventory investment is shown as "change in private inventories." Inventory investment increased (that is, became less negative) from -\$119.3 billion in the fourth quarter to -\$25.7 billion in the first.

4. In the NIPA's, consumer spending is shown as personal consumption expenditures, and government spending is shown as government consumption expenditures and gross investment.

**Table 2. Contributions to Percent Change in Real Gross Domestic Product**

[Seasonally adjusted at annual rates]

	2001			2002
	II	III	IV	I
<b>Percent change at annual rate:</b>				
Gross domestic product .....	0.3	-1.3	1.7	5.6
<b>Percentage points at annual rates:</b>				
Personal consumption expenditures .....	1.72	0.67	4.14	2.30
Durable goods .....	0.56	0.07	2.84	-0.87
Nondurable goods .....	0.06	0.12	0.50	1.64
Services .....	1.10	0.48	0.80	1.53
Gross private domestic investment .....	-2.16	-1.79	-4.12	3.12
Fixed investment .....	-1.74	-0.97	-1.96	-0.35
Nonresidential .....	-1.99	-1.08	-1.75	-0.96
Structures .....	-0.44	-0.26	-1.27	-0.77
Equipment and software .....	-1.55	-0.82	-0.47	-0.19
Residential .....	0.25	0.10	-0.21	0.61
Change in private inventories .....	-0.42	-0.81	-2.16	3.47
Net exports of goods and services .....	-0.12	-0.27	-0.14	-1.06
Exports .....	-1.37	-2.13	-1.14	0.51
Goods .....	-1.45	-1.55	-0.72	-0.19
Services .....	0.08	-0.58	-0.42	0.70
Imports .....	1.25	1.86	1.00	-1.57
Goods .....	1.21	1.20	0.40	-0.72
Services .....	0.05	0.66	0.59	-0.85
Government consumption expenditures and gross investment .....	0.87	0.05	1.76	1.22
Federal .....	0.11	0.21	0.66	0.69
National defense .....	0.09	0.12	0.34	0.69
Nondefense .....	0.02	0.09	0.32	0
State and local .....	0.76	-0.16	1.10	0.53

NOTE: More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

- Inventories were liquidated for the fifth consecutive quarter. The ratio of real private inventories to final sales fell from 2.16 to 2.13, a record low level.<sup>5</sup>
- Nonresidential fixed investment continued to decline. Structures decreased for the fourth quarter in a row, and equipment and software decreased for the sixth consecutive quarter.
- The price index for gross domestic purchases increased less than 1.0 percent for the second quarter in a row; it had decreased slightly in the third quarter of 2001.
- Real disposable personal income increased at a double-digit rate after dropping sharply, as current-dollar personal income rose while personal tax payments fell. The drop in tax payments partly reflected the introduction of a new 10-percent tax bracket (as mandated by the Economic Growth and Tax Relief and Reconciliation Act of 2001) and the indexation provisions of current tax law.
- The personal saving rate, which is measured as personal saving as a percentage of current-dollar disposable personal income, rebounded after a fall. (The *national* saving rate, which is measured as gross saving as a percentage of gross national product and which was unavailable at the time of the advance estimate, was unchanged at 16.6 percent.)
- Real final sales of computers decreased substantially, the third decrease in the past four quarters; real motor vehicle output continued to increase moderately (table 3).

5. Other real inventory-sales ratios reached their lowest levels since 1966 (see NIPA table 5.13B).

**Table 3. Real Gross Domestic Product by Type of Product**

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2002	2001			2002	2001			2002
	I	II	III	IV	I	II	III	IV	I
Gross domestic product.....	9,476.3	7.2	-31.3	38.2	127.7	0.3	-1.3	1.7	5.6
Goods.....	3,730.2	-34.0	-40.8	16.2	82.6	-3.6	-4.4	1.8	9.4
Services.....	4,950.8	32.3	21.3	36.1	45.0	2.7	1.8	3.0	3.7
Structures.....	798.4	4.2	-15.1	-13.2	4.9	2.0	-7.1	-6.4	2.5
Addenda:									
Motor vehicle output .....	359.2	18.0	6.9	8.5	7.7	24.7	8.5	10.2	9.1
Gross domestic product less motor vehicle output .....	9,118.3	-9.1	-37.5	30.6	120.3	-0.4	-1.7	1.4	5.5
Final sales of computers.....	.....	.....	.....	.....	.....	-26.5	-10.7	31.2	-23.6
Gross domestic product less final sales of computers .....	.....	.....	.....	.....	.....	0.6	-1.2	1.4	5.8

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals for most items are shown in NIPA table 1.4. Detail on motor vehicle output is shown in NIPA table 8.9B.

## Personal Consumption Expenditures

Real personal consumption expenditures (PCE) increased 3.2 percent in the first quarter, about half the

**Table 4. Real Personal Consumption Expenditures**

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2002	2001			2002	2001			2002
	I	II	III	IV	I	II	III	IV	I
<b>Personal consumption expenditures</b> .....	<b>6,592.1</b>	<b>39.9</b>	<b>15.5</b>	<b>96.4</b>	<b>51.8</b>	<b>2.5</b>	<b>1.0</b>	<b>6.1</b>	<b>3.2</b>
Durable goods .....	996.1	15.7	2.1	81.5	-25.6	7.0	0.9	39.4	-9.6
Motor vehicles and parts .....	382.1	4.9	-0.4	57.9	-37.3	5.6	-0.5	81.3	-31.1
Of which:									
New autos .....	108.7	-3.0	-2.5	22.5	-15.9	-10.7	-9.2	122.2	-42.2
New light trucks .....	145.7	4.2	4.6	38.9	-20.9	14.9	15.7	189.8	-41.5
Furniture and household equipment .....	430.9	9.5	3.2	14.1	13.1	10.0	3.3	14.7	13.2
Other <sup>1</sup> .....	188.6	2.0	-0.2	4.3	5.0	4.6	-0.5	10.1	11.1
Nondurable goods .....	1,931.9	1.4	2.6	11.6	38.3	0.3	0.6	2.5	8.3
Food .....	903.9	-1.2	-2.3	3.8	16.3	-0.5	-1.0	1.8	7.5
Clothing and shoes .....	359.7	1.4	0.6	4.6	10.4	1.8	0.7	5.5	12.4
Gasoline, fuel oil, and other energy goods .....	155.1	-2.5	2.5	-0.9	3.4	-6.5	6.9	-2.3	9.3
Other <sup>2</sup> .....	516.5	4.1	1.6	4.5	9.0	3.4	1.3	3.6	7.3
Services .....	3,691.1	24.7	10.6	17.8	32.9	2.8	1.2	2.0	3.7
Housing .....	879.4	3.6	3.5	4.8	6.2	1.7	1.6	2.2	2.9
Household operation .....	388.5	-5.3	1.0	-6.7	7.2	-5.3	1.0	-6.7	7.7
Electricity and gas .....	135.9	-5.1	-1.0	-4.6	6.5	-13.8	-2.8	-13.1	21.8
Other household operation .....	253.3	0.4	2.0	-1.7	0.3	0.5	3.3	-2.8	0.6
Transportation .....	252.8	-0.2	-2.2	-2.3	3.1	-0.4	-3.5	-3.6	5.1
Medical care .....	954.0	10.5	8.1	7.5	6.3	4.6	3.5	3.2	2.7
Recreation .....	234.7	0.6	-1.6	1.7	1.8	1.0	-2.7	2.9	3.2
Other <sup>3</sup> .....	980.1	14.9	2.0	11.8	8.6	6.5	0.8	5.0	3.6

1. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

2. Includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.

3. Includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 2.3 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

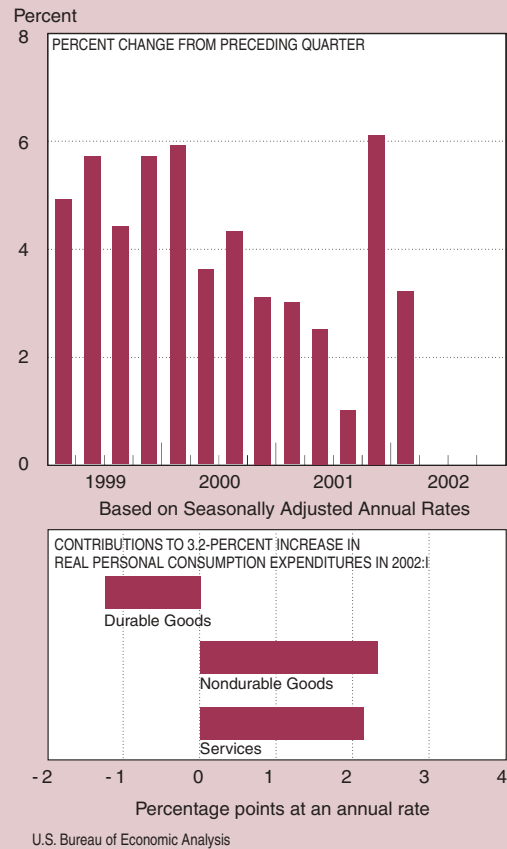
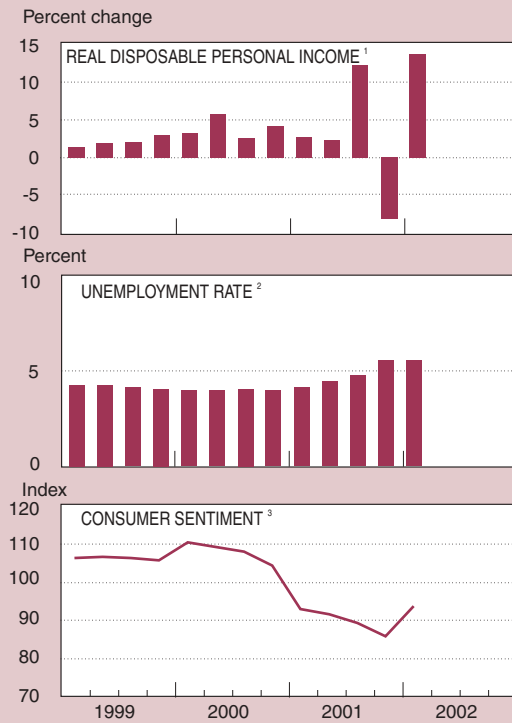
size of its large fourth-quarter increase (table 4 and chart 2). Nondurable goods and services increased more than in the fourth quarter, but durable goods turned down.

Expenditures for nondurable goods increased 8.3 percent after increasing 2.5 percent. Food, clothing and shoes, and "other" nondurable goods increased more than in the fourth quarter. Energy goods increased after a fourth-quarter decrease.

Expenditures for services increased 3.7 percent after increasing 2.0 percent. The step-up was mainly accounted for by upturns in electricity and gas and in transportation.

Expenditures for durable goods decreased 9.6 percent after surging 39.4 percent, when consumers had responded to very favorable financing terms on new cars and trucks. Furniture and household equipment and "other" durable goods increased about as much as in the fourth quarter.

Several factors frequently considered in the analysis of consumer spending improved somewhat in the first quarter (chart 3). Real disposable personal income jumped sharply for the second time in three quarters. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Center) rebounded to its highest level in more than a year after declining for seven consecutive quarters. The unemployment rate held steady—albeit at its high fourth-quarter rate of 5.6 percent.

**CHART 2****Real Personal Consumption Expenditures****CHART 3****Selected Factors Affecting Consumer Spending**

1. Based on seasonally adjusted annual rates.

2. All civilian workers, seasonally adjusted. Data: U.S. Department of Labor, Bureau of Labor Statistics

3. Data: University of Michigan's Survey Research Center

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## Private Fixed Investment

Real private fixed investment decreased 2.3 percent in the first quarter after posting larger decreases in the three preceding quarters (table 5 and chart 4). Nonresidential investment decreased less than in the fourth quarter, and residential investment turned up.

**Nonresidential fixed investment.** Real nonresidential fixed investment decreased 8.2 percent, its fifth consecutive quarterly drop. Structures and equipment both contributed to the first-quarter decrease.

Structures decreased sharply, though less than in the fourth quarter.<sup>6</sup> Weakness was widespread: Buildings, utilities, and mining and drilling decreased. Each was about 20 percent lower than in the first quarter of 2001.

Like structures, equipment and software also de-

creased less than in the fourth quarter. Decreases in transportation equipment and "other" equipment were partly offset by increases in industrial equipment and information processing equipment. About two-thirds of the decrease in transportation equipment was accounted for by motor vehicles; aircraft accounted for the rest. The increase in industrial equipment was more than accounted for by engines and turbines. In information processing equipment, computers increased for the second quarter in a row after three quarterly decreases, and communications equipment decreased much less than in recent quarters.

The investment climate has generally been unfavorable in recent quarters. The capacity utilization rate for manufacturing, mining, and utilities edged up in the first quarter, and domestic corporations' profits from current production increased in the past two quarters, but each series remained substantially below the levels it had reached in the recent expansion. Growth of real final sales of domestic product remained below par; it has averaged 1.5 percent over the past four quarters,

6. In July 2001, two private corporations leased properties at the World Trade Center from the Port Authority of New York. In the NIPAs, such a transaction is treated as a purchase of an existing asset; it resulted in a \$12.8 billion third-quarter increase (current dollars at an annual rate) in investment in nonresidential structures and a corresponding third-quarter decrease in gross investment in structures by State and local governments. Because no such transaction occurred in the fourth quarter, nonresidential structures decreased sharply, and investment by State and local governments increased sharply.

**Table 5. Real Private Fixed Investment**  
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter				
	2002	Change from preceding quarter				2001				2002
		2001				2001				I
		I	II	III	IV	I	II	III	IV	
<b>Private fixed investment .....</b>	<b>1,612.6</b>	<b>-43.9</b>	<b>-24.8</b>	<b>-49.7</b>	<b>-9.3</b>	<b>-9.7</b>	<b>-5.7</b>	<b>-11.4</b>	<b>-2.3</b>	
Nonresidential .....	1,218.7	-53.0	-28.9	-47.0	-26.3	-14.6	-8.5	-13.8	-8.2	
Structures .....	233.5	-9.4	-5.5	-26.9	-16.4	-12.2	-7.5	-33.6	-23.8	
Nonresidential buildings, including farm .....	160.9	-10.4	-10.8	-11.5	-8.4	-19.0	-20.8	-23.0	-18.5	
Utilities .....	45.8	-1.1	-5.1	0.5	-4.6	-7.6	-32.3	4.4	-31.9	
Mining exploration, shafts, and wells .....	21.7	2.1	-0.4	-4.9	-3.4	33.7	-5.3	-50.9	-44.1	
Other structures .....	6.1	-0.4	11.1	-10.9	0.0	-21.4	( <sup>1</sup> )	( <sup>1</sup> )	3.0	
Equipment and software .....	999.7	-44.5	-23.8	-13.8	-5.9	-15.4	-8.8	-5.3	-2.3	
Information processing equipment and software .....	573.6	-32.8	-16.0	-4.7	6.2	-19.5	-10.5	-3.2	4.4	
Computers and peripheral equipment <sup>2</sup> .....	305.8	-27.1	-21.6	20.3	19.8	-30.3	-26.8	34.2	30.6	
Software <sup>3</sup> .....	188.1	-1.8	2.0	-2.8	-2.2	-3.7	4.4	-5.8	-4.6	
Other .....	152.4	-14.9	-7.8	-7.0	1.3	-29.1	-17.5	-16.5	3.4	
Industrial equipment .....	151.0	-9.5	-9.9	-5.3	5.0	-20.5	-22.4	-13.4	14.5	
Transportation equipment .....	163.7	-3.0	-0.4	2.1	-12.4	-6.6	-0.9	4.9	-25.3	
Of which: Motor vehicles .....	125.4	-1.3	-6.7	-0.2	-8.2	-3.6	-17.7	-0.5	-22.5	
Other .....	135.2	-2.2	1.2	-5.1	-2.0	-6.0	3.6	-13.6	-5.9	
Residential .....	389.0	5.4	2.2	-4.5	13.0	5.9	2.4	-4.6	14.6	
Structures .....	379.3	5.3	2.3	-4.6	13.0	6.0	2.5	-4.8	14.9	
Single-family .....	196.8	1.7	0.5	-3.4	6.9	3.5	1.2	-7.0	15.4	
Multifamily .....	27.1	0.9	0.5	0.8	1.6	18.2	7.0	14.4	26.6	
Other structures <sup>4</sup> .....	155.3	2.6	1.3	-2.0	4.4	7.3	3.4	-5.1	12.2	
Equipment .....	9.7	0	0	0.1	-0.1	2.8	-2.8	4.3	-0.6	

1. The percent change is not calculated for the third and fourth quarters of 2001; as a result of the leasing of properties described in footnote 6 of the text, the percent change calculation is of little value.

2. Includes new computers and peripheral equipment only.

3. Excludes software "embedded," or bundled, in computers and other equipment.

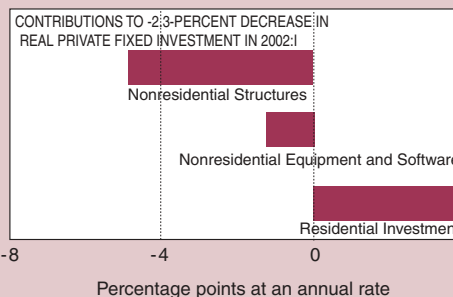
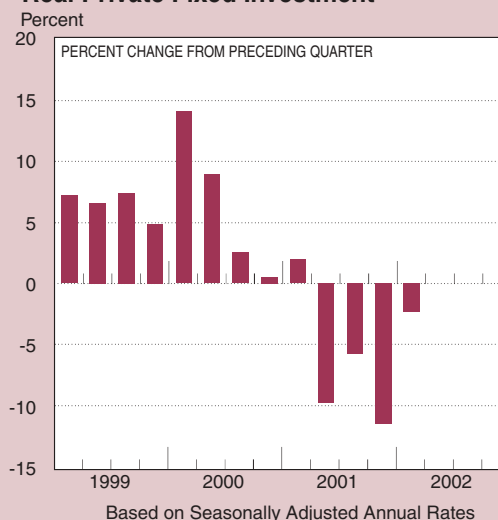
4. Includes home improvements, new manufactured

home sales, brokers' commissions on home sales, net purchases of used structures, and other residential structures (which consists primarily of dormitories and of fraternity and sorority houses).

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.5 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

**CHART 4**

### Real Private Fixed Investment



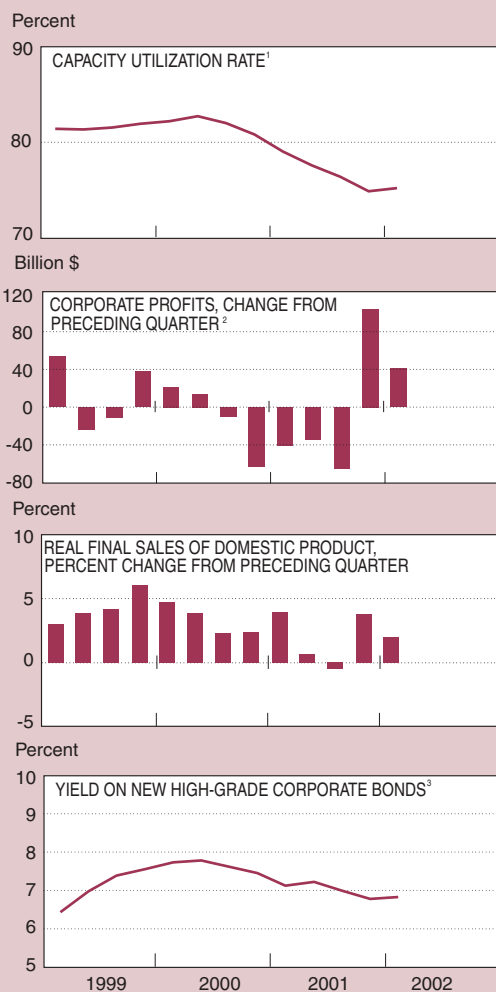
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compared with a 3.5-percent average over most of the recent expansion. Long-term interest rates have trended down only modestly; for example, over the past seven quarters the yield on high-grade corporate bonds has dropped about 1 percentage point, but it has changed little in the past two quarters (chart 5).

**Residential investment.** Real private residential investment surged after a 4.6-percent dip in the fourth quarter (table 5 and chart 4). Single-family structures and multifamily structures posted their biggest increases in about 3 years, and “other” structures posted its biggest increase in almost 6 years. The increase in “other” structures mainly reflected a jump in brokers’ commissions on home sales.

**CHART 5**

**Selected Factors Affecting Nonresidential Investment**



1. All industries. Data: Federal Reserve Board

2. Domestic industries.

3. Data: U.S. Treasury Department

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## Inventory Investment

Real inventory stocks decreased \$25.7 billion in the first quarter after decreasing \$119.3 billion in the fourth quarter (table 6 and chart 6). The smaller decrease in the first quarter than in the fourth contributed 3.47 percentage points to GDP growth in the first quarter.<sup>7</sup>

Retail trade inventories increased in the first quarter after decreasing in the fourth. Wholesale trade and manufacturing inventories decreased less in the first quarter than in the fourth.

Most of the upturn in retail trade inventories was accounted for by motor vehicle dealers, whose inventories increased after a substantial liquidation in the fourth quarter. Inventories of clothing and of building materials stores also turned up.

In wholesale trade, inventories of durable-goods industries decreased about half as much as in the fourth quarter, and inventories of nondurable-goods industries increased after decreasing. In durable goods, inventories of computer wholesalers turned up, and inventories of electrical goods wholesalers decreased less than in the fourth quarter. In contrast, motor vehicle inventories of merchant wholesalers again decreased moderately. The upturn in inventories of nondurable goods was more than accounted for by farm products and raw materials; in contrast, invento-

ries of drugs and sundries changed little after increasing.

In manufacturing, inventories of both durable-goods manufacturers and nondurable-goods manufacturers decreased less than in the fourth quarter. In durable-goods industries, the pace of liquidation of inventories of computer and electronic products slowed, and inventories of wood products swung from liquidation to accumulation. In contrast, inventories of aircraft manufacturers swung from accumulation to liquidation. In nondurable-goods industries, petroleum and chemical inventories swung from liquidation to accumulation.

Farm inventories decreased less than in the fourth quarter, reflecting an upturn in livestock inventories. Crop inventories decreased about as much as in the fourth quarter.

The ratio of real private nonfarm inventories to final sales of goods and structures decreased to 3.53 from 3.57 (see NIPA table 5.13B). A ratio that includes all final sales of domestic businesses decreased to 1.98 from 2.01.<sup>8</sup> Both ratios have been trending down since the mid-1970s.

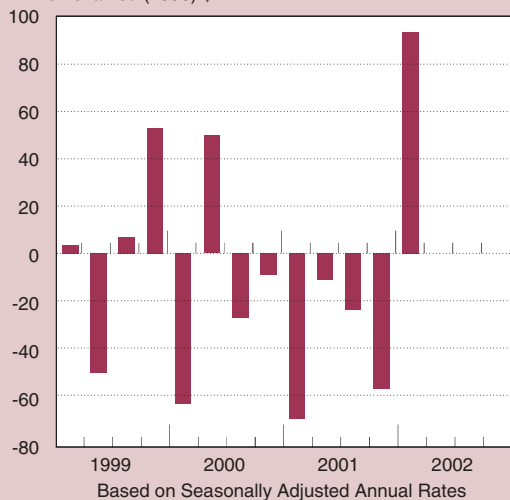
7. In the NIPA's, the *level* of GDP depends, in part, on the *change* in private inventories, and the *change* in GDP depends on the "change in the change" in private inventories.

8. Using the ratio that includes all final sales of domestic businesses in the denominator implies that the production of services results in a demand for inventories that is similar to that generated in the production of goods and structures. In contrast, using the "goods and structures" ratio implies that the production of services does not generate demand for inventories. Both implications are extreme. Production of some services may require substantial inventories, while production of other services may not.

**CHART 6**

### Real Private Inventory Investment: Change from Preceding Quarter

Billion chained (1996) \$



Based on Seasonally Adjusted Annual Rates  
U.S. Bureau of Economic Analysis

**Table 6. Real Change in Private Inventories**

[Billions of chained (1996) dollars; seasonally adjusted at annual rates]

	Level				Change from preceding quarter				
	2001				2002				I
	I	II	III	IV	I	II	III	IV	
<b>Change in private inventories ....</b>	<b>-27.1</b>	<b>-38.3</b>	<b>-61.9</b>	<b>-119.3</b>	<b>-25.7</b>	<b>-11.2</b>	<b>-23.6</b>	<b>-57.4</b>	<b>93.6</b>
Farm .....	0.2	-2.5	-2.9	-5.3	-4.8	-2.7	-0.4	-2.4	0.5
Construction, mining, and utilities .....	1.9	6.8	2.4	0.8	-0.2	4.9	-4.4	-1.6	-1.0
Manufacturing .....	-15.0	-35.6	-47.0	-44.1	-26.8	-20.6	-11.4	2.9	17.3
Durable goods industries .....	-10.5	-25.3	-39.1	-37.1	-25.0	-14.8	-13.8	2.0	12.1
Nondurable goods industries .....	-4.5	-10.2	-8.0	-7.1	-1.8	-5.7	2.2	0.9	5.3
Wholesale trade .....	-3.0	2.6	-18.9	-30.7	-9.9	5.6	-21.5	-11.8	20.8
Durable goods industries .....	-3.7	-11.6	-24.0	-28.8	-13.9	-7.9	-12.4	-4.8	14.9
Nondurable goods industries .....	0.6	12.8	3.8	-2.9	3.3	12.2	-9.0	-6.7	6.2
Retail trade .....	-15.3	-13.2	1.2	-40.2	12.9	2.1	14.4	-41.4	53.1
Of which: Motor vehicle dealers .....	-19.6	-5.6	2.2	-31.9	10.4	14.0	7.8	-34.1	42.3
Other industries <sup>1</sup> .....	3.6	1.2	0.5	0.3	1.0	-2.4	-0.7	-0.2	0.7
<b>Addenda:</b>									
Motor vehicles .....	-22.6	-8.3	3.7	-37.5	6.8	14.3	12.0	-41.2	44.3
Autos .....	-9.5	-4.2	3.0	-15.5	7.0	5.3	7.2	-18.5	22.5
Trucks .....	-12.1	-3.8	0.9	-20.0	0.4	8.3	4.7	-20.9	20.4

1. Includes inventories held by establishments in the following industries: transportation; communication; finance, insurance, and real estate; and services.

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.11B and 8.9B (motor vehicles).

## Exports and Imports

Real exports and real imports both increased in the first quarter after decreasing for five consecutive quarters (table 7 and charts 7 and 8). In exports, a sharp rise in services more than offset a decrease in goods; in imports, goods and services increased by about equal amounts.

Exports of goods decreased 2.9 percent after a larger decrease in the fourth quarter; the smaller decrease was mainly accounted for by nonautomotive capital goods. (Capital goods, which account for about half of all exported goods, have decreased in the last four quarters and are about 20 percent less than in the first quarter of 2001.) Exports of civilian aircraft turned up in the first quarter, and exports of "other" nonautomotive capital goods decreased much less than in the fourth quarter. In contrast, exports of computers and peripheral equipment decreased more than in the fourth quarter (exports of computers have decreased for six consecutive quarters).

Exports of services jumped 26.1 percent after posting large decreases in the two preceding quarters. The turnaround mainly reflected upturns in travel and in passenger fares.

Imports of goods increased 6.8 percent after decreasing 3.6 percent. The upturn was mainly accounted for by upturns in nonautomotive capital

**Table 7. Real Exports and Imports of Goods and Services**

[Seasonally adjusted at annual rates]

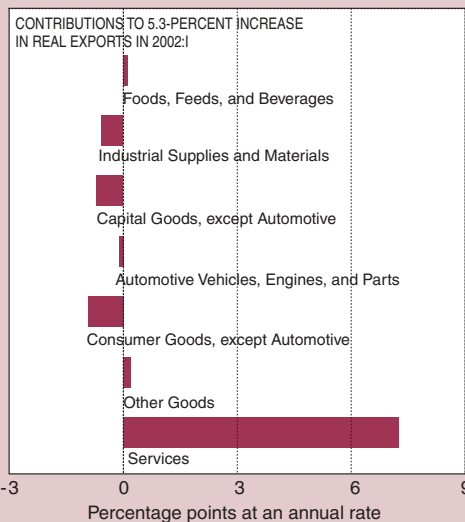
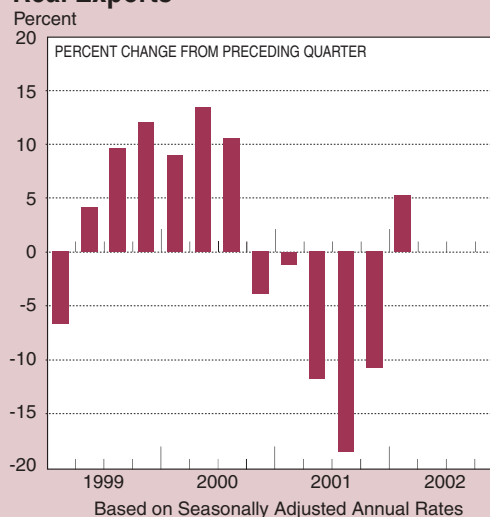
	Billions of chained (1996) dollars					Percent change from preceding quarter				
	Level	Change from preceding quarter				Percent change from preceding quarter				
		2002	2001			2001				
		I	II	III	IV	I	II	III	IV	I
<b>Exports of goods and services...</b>	<b>1,035.4</b>	<b>-35.8</b>	<b>-56.1</b>	<b>-30.0</b>	<b>13.2</b>	<b>-11.9</b>	<b>-18.8</b>	<b>-10.9</b>	<b>5.3</b>	
Exports of goods <sup>1</sup> .....	737.6	-39.2	-42.3	-19.8	-5.5	-17.3	-19.4	-10.0	-2.9	
Foods, feeds, and beverages	63.0	-1.0	-1.7	3.3	0.3	-6.0	-10.6	23.7	2.3	
Industrial supplies and materials .....	159.0	-6.0	-2.5	0.4	-1.6	-13.5	-6.0	0.9	-3.8	
Capital goods, except automotive .....	319.5	-37.9	-29.1	-16.7	-2.0	-32.4	-28.2	-18.3	-2.5	
Automotive vehicles, engines, and parts .....	70.8	4.2	1.0	-4.1	-0.3	26.4	5.8	-20.2	-1.7	
Consumer goods, except automotive .....	82.6	-0.2	-7.7	-0.7	-2.3	-0.8	-29.2	-3.1	-10.4	
Other .....	43.3	-0.1	-2.8	-1.4	0.5	-0.8	-22.1	-12.0	5.1	
Exports of services <sup>1</sup> .....	296.3	1.8	-14.0	-10.0	16.7	2.4	-17.2	-13.1	26.1	
<b>Imports of goods and services...</b>	<b>1,479.0</b>	<b>-33.6</b>	<b>-51.8</b>	<b>-28.3</b>	<b>44.1</b>	<b>-8.4</b>	<b>-13.0</b>	<b>-7.5</b>	<b>12.9</b>	
Imports of goods <sup>1</sup> .....	1,265.7	-32.7	-33.5	-11.5	20.6	-9.5	-10.0	-3.6	6.8	
Foods, feeds, and beverages	53.1	0.9	3.2	-1.2	0.5	6.8	27.8	-8.0	3.2	
Industrial supplies and materials, except petroleum and products .....	164.7	1.5	0	-3.5	1.7	3.6	-0.1	-8.0	4.3	
Petroleum and products .....	81.7	0.9	-6.9	0.8	-4.4	4.3	-26.7	3.5	-18.8	
Capital goods, except automotive .....	391.7	-56.2	-26.0	-3.2	20.5	-40.9	-23.6	-3.4	24.0	
Automotive vehicles, engines, and parts .....	185.6	4.9	0.9	-4.1	0.5	10.9	2.1	-8.4	1.1	
Consumer goods, except automotive .....	305.0	-4.7	-6.1	-3.0	13.4	-6.0	-7.9	-3.9	19.7	
Other .....	78.8	7.6	-0.9	2.5	-8.0	45.1	-4.2	12.4	-31.9	
Imports of services <sup>1</sup> .....	212.0	-1.2	-18.6	-16.7	21.1	-2.0	-29.1	-28.5	52.1	

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.

Note. See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 4.4. Percent changes in major aggregates are shown in NIPA table S.1.

**CHART 7**

### Real Exports



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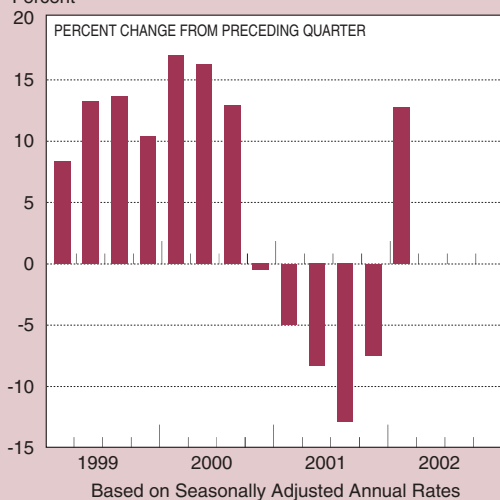
goods and nonautomotive consumer goods; in contrast, petroleum imports decreased after a small increase. In capital goods, a step-up in computers and an upturn in “other” capital goods more than offset a downturn in aircraft.

Imports of services jumped 52.1 percent. As with exports of services, the jump followed large decreases in the two preceding quarters, and the upturn was mainly accounted for by upturns in travel and passenger fees.

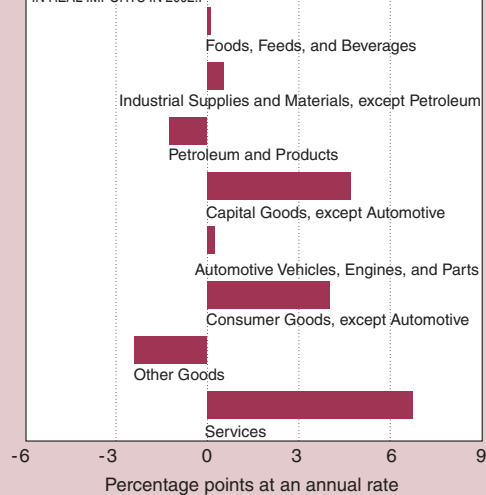
CHART 8

## Real Imports

Percent



## CONTRIBUTIONS TO 12.9-PERCENT INCREASE IN REAL IMPORTS IN 2002:1



U.S. Bureau of Economic Analysis

Government Spending, next page.

## Government Spending

Government spending increased 6.7 percent in the first quarter after increasing 10.2 percent in the fourth. Federal Government spending increased at the same rate as in the fourth quarter, while State and local government spending slowed (table 8 and chart 9).

The first-quarter increase in Federal Government spending was accounted for by defense spending; in the fourth quarter, defense and nondefense spending had contributed about equal amounts. In defense spending, consumption expenditures accelerated, mainly reflecting step-ups in "other" services, which includes research and development and personnel and weapons support. Gross investment increased less than in the fourth quarter; structures decreased after increasing, and the growth of equipment and software slowed.

In nondefense spending, consumption expenditures edged down after a strong increase; the downturn was more than accounted for by purchases by the Commodity Credit Corporation. Gross investment

was essentially unchanged; an increase in structures was offset by a decrease in equipment and software.

State and local government spending increased about half as much as in the fourth quarter, when a jump in gross investment reflected the World Trade Center transaction (see footnote 6).

**Table 8. Real Government Consumption Expenditures and Gross Investment**

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter				
	Level		Change from preceding quarter							
	2002		2001			2001				
	I	II	III	IV	I	II	III	IV	I	
<b>Government consumption expenditures and gross investment<sup>1</sup></b>	<b>1,691.0</b>	<b>19.6</b>	<b>1.1</b>	<b>39.8</b>	<b>27.1</b>	<b>5.0</b>	<b>0.3</b>	<b>10.2</b>	<b>6.7</b>	
Federal.....	590.6	2.5	4.9	15.3	15.7	1.8	3.6	11.4	11.4	
National defense.....	389.2	2.1	2.9	7.9	16.0	2.3	3.2	9.0	18.3	
Consumption expenditures.....	325.8	0.2	2.9	4.6	13.7	0.2	3.9	6.1	18.8	
Gross investment.....	64.0	2.1	-0.1	3.7	2.2	16.0	-0.7	27.8	15.2	
Nondefense.....	201.5	0.5	2.0	7.3	-0.1	0.9	4.2	16.0	-0.3	
Consumption expenditures.....	155.3	0.5	-0.2	5.7	-0.2	1.4	-0.4	15.9	-0.4	
Gross investment.....	46.9	-0.1	2.4	1.7	0	-0.7	24.1	16.4	0.3	
State and local.....	1,099.9	16.9	-3.6	24.6	11.5	6.6	-1.3	9.6	4.3	
Consumption expenditures.....	868.1	7.8	9.0	7.3	4.9	3.8	-4.3	3.5	2.3	
Gross investment.....	232.5	9.4	-13.1	17.8	6.8	18.9	-21.6	38.7	12.7	

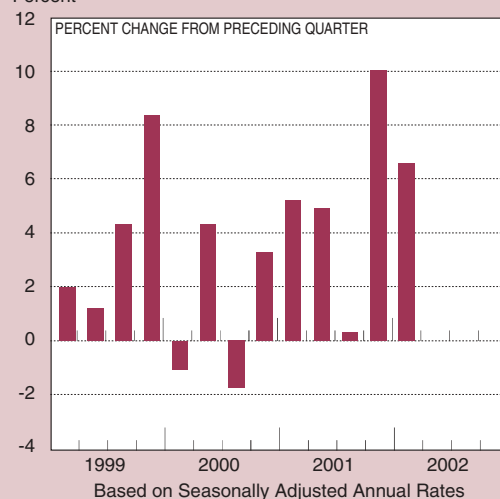
1. Gross government investment consists of general government and government enterprise expenditures for fixed assets; inventory investment is included in government consumption expenditures.

Note: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 3.8. Percent changes in major aggregates are shown in NIPA table S.1.

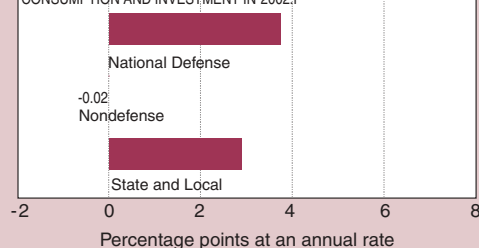
**CHART 9**

### Real Government Consumption and Investment

Percent



CONTRIBUTIONS TO 6.7-PERCENT INCREASE IN REAL GOVERNMENT CONSUMPTION AND INVESTMENT IN 2002:<sup>1</sup>



U.S. Bureau of Economic Analysis

## Prices

The price index for gross domestic purchases, which measures the prices of goods and services purchased by U.S. residents, increased 0.8 percent in the first quarter (table 9). (The advance estimate had shown an increase of 0.7 percent.) About 0.3 percentage point of the first-quarter increase was accounted for by a pay raise for Federal civilian and military personnel.<sup>9</sup> Prices had increased 0.5 percent in the fourth quarter; excluding insurance-related price effects associated with the September 11<sup>th</sup> terrorist attacks, the price index decreased 0.2 percent.<sup>10</sup>

Excluding food and energy prices, which are more volatile than most other prices, the price index slowed to a 1.1-percent increase in the first quarter from a 2.0-percent increase in the fourth (chart 10).

Prices of personal consumption expenditures (PCE) increased 0.7 percent in the first quarter, about the same as in the fourth. Excluding food and energy prices, PCE prices slowed to a 1.0-percent increase

from a 2.7-percent increase. Prices of PCE services decelerated, partly reflecting slowdowns in prices of insurance and of medical services. Prices of durable goods decreased more than in the fourth quarter, partly reflecting a downturn in prices of motor vehicles and parts.

Prices paid by government increased 3.2 percent after two quarters of little or no change. Prices paid by the Federal Government increased 7.1 percent after decreasing 0.5 percent; the increase mainly reflected the pay raise. Prices paid by State and local governments increased 1.2 percent after decreasing 0.2 percent.

Prices of private nonresidential fixed investment decreased 2.1 percent after decreasing 1.6 percent. Prices of structures turned down, and prices of equipment and software decreased about as much as in the fourth quarter.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 1.0 percent after decreasing 0.1 percent. This index, unlike the price index for gross domestic purchases, includes the prices of exports and excludes the prices of imports. Export prices decreased less than in the fourth quarter. Import prices decreased after increasing; the increase had been accounted for by a rebound in prices of imported services after a third-quarter drop that reflected payments from foreign insurers and reinsurers related to the September 11<sup>th</sup> terrorist attacks. Excluding the insurance-related price effects on imports and on PCE (and a small effect on State and local government spending), the GDP index increased 0.9 percent in the fourth quarter.

**Table 9. Percent Changes in Prices**

[Annual rates; based on seasonally adjusted index numbers (1996=100)]

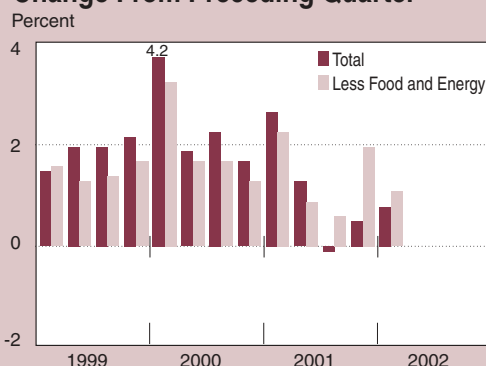
	2001			2002
	II	III	IV	I
<b>Gross domestic product</b> .....	<b>2.1</b>	<b>2.3</b>	<b>-0.1</b>	<b>1.0</b>
Less: Exports of goods and services .....	-1.0	-1.7	-3.0	-0.6
Plus: Imports of goods and services .....	-6.0	-17.1	2.4	-1.3
<b>Equals: Gross domestic purchases</b> .....	<b>1.3</b>	<b>-0.1</b>	<b>0.5</b>	<b>0.8</b>
Less: Change in private inventories .....	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>1.3</b>	<b>-0.1</b>	<b>0.5</b>	<b>0.8</b>
Personal consumption expenditures .....	1.3	-0.2	0.8	0.7
Durable goods .....	-3.5	-2.8	-1.6	-4.3
Nondurable goods .....	2.7	-1.5	-3.2	0.2
Services .....	1.7	0.9	3.4	2.0
Private fixed investment .....	0.6	0.3	-0.1	-1.4
Nonresidential .....	-0.1	-0.5	-1.6	-2.1
Structures .....	4.7	2.7	1.0	-1.5
Equipment and software .....	-1.9	-1.7	-2.5	-2.3
Residential .....	2.6	2.5	3.8	0.4
Government consumption expenditures and gross investment .....	1.8	0	-0.3	3.2
Federal .....	1.2	0.2	-0.5	7.1
National defense .....	1.0	0.3	-0.8	7.3
Nondefense .....	1.7	0	0	6.8
State and local .....	2.1	-0.1	-0.2	1.2
<b>Addenda:</b>				
Gross domestic purchases:				
Food .....	2.6	3.7	2.5	2.3
Energy .....	6.1	-21.0	-33.0	-8.8
Less food and energy .....	0.9	0.6	2.0	1.1
Personal consumption expenditures:				
Food .....	2.6	3.8	2.4	2.4
Energy goods and services <sup>1</sup> .....	9.2	-20.6	-31.8	-9.2
Less food and energy .....	0.7	0.5	2.7	1.0

1. Consists of gasoline, fuel oil, and other energy goods and of electricity and gas.

NOTE: Percent changes in major aggregates are shown in NIPA table 8.1. Index numbers are shown in tables 7.1, 7.2, and 7.4.

**CHART 10**

### Gross Domestic Purchases Prices: Change From Preceding Quarter



Note—Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (1996=100).

U.S. Bureau of Economic Analysis

Revisions, next page.

## Revisions

The preliminary estimate of a 5.6-percent increase in real GDP in the first quarter is 0.2 percentage point lower than last month's advance estimate (table 10). In the past 20 years, the average revision, without regard to sign, from the advance estimate to the preliminary estimate has been 0.5 percentage point.

The largest negative contributors to the revision to real GDP were nonresidential fixed investment (−0.30 percentage point), personal consumption expenditures (−0.23 percentage point), and government spending (−0.21 percentage point). The largest positive contributors were change in private inventories (0.37 percentage point) and imports (0.30 percentage point).

The revision to nonresidential fixed investment reflected the incorporation of newly available data on exports and imports for March from the Census Bureau, and revised (January and February) and newly available (March) data on construction put-in-place by utilities from the Census Bureau.

The revision to consumer spending primarily reflected the incorporation of revised Census Bureau data on retail sales, primarily from the 2000 Annual Retail Trade Survey, and newly available trade-association data on auto and truck registrations for March.

The revision to government spending primarily reflected revised (January and February) and newly available (March) data on State and local government construction put-in-place from the Census Bureau.

The revision to change in private inventories reflected revised (February) and newly available (March) data from the Census Bureau. In addition, revisions to retail inventories and to inventories of merchant wholesalers reflected the incorporation of benchmark data from the Census Bureau's annual surveys of retail and wholesale trade.

The revision to imports primarily reflected newly available Census Bureau data on imports of goods for March.

Growth in current-dollar disposable personal income—personal income less personal tax and nontax payments—was revised up from 11.1 percent in the advance estimate to 14.6 percent in the preliminary estimate. The revision reflected a downward revision to Federal nonwithheld income taxes. The revised esti-

mate of taxes was based on data on actual collections through April from the *Monthly Treasury Statement* and on projected collections for the remainder of the calendar year that are based on historical collection patterns; in the advance estimate, the tax estimate was based on BEA projections from the Federal budget.

**Table 10. Revisions to Change in Real Gross Domestic Product and Prices, First Quarter 2002**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of chained (1996) dollars
<b>Gross domestic product</b> .....	<b>5.8</b>	<b>5.6</b>	<b>−0.2</b>	<b>−5.8</b>
Less: Exports.....	6.8	5.3	−1.5	−3.7
Goods.....	−1.2	−2.9	−1.7	−3.3
Services.....	26.9	26.1	−0.8	−0.5
Plus: Imports.....	15.5	12.9	−2.6	−8.6
Goods.....	9.7	6.8	−2.9	−8.6
Services.....	52.3	52.1	−0.2	0
<b>Equals: Gross domestic purchases</b> .....	<b>6.9</b>	<b>6.5</b>	<b>−0.4</b>	<b>−9.8</b>
Less: Change in private inventories.....	.....	.....	.....	10.5
<b>Equals: Final sales to domestic purchasers</b> .....	<b>3.7</b>	<b>3.0</b>	<b>−0.7</b>	<b>−18.5</b>
Personal consumption expenditures.....	3.5	3.2	−0.3	−5.4
Durable goods.....	−8.0	−9.6	−1.6	−4.4
Nondurable goods.....	8.4	8.3	−0.1	−0.5
Services.....	3.8	3.7	−0.1	−1.3
Private fixed investment.....	−0.2	−2.3	−2.1	−8.7
Nonresidential.....	−5.7	−8.2	−2.5	−8.1
Structures.....	−19.9	−23.8	−3.9	−2.9
Equipment and software....	−0.5	−2.3	−1.8	−4.7
Residential.....	15.7	14.6	−1.1	−1.0
Government consumption expenditures and gross investment.....	7.9	6.7	−1.2	−4.8
Federal.....	12.4	11.4	−1.0	−1.3
National defense.....	19.6	18.3	−1.3	−1.0
Nondefense.....	0.2	−0.3	−0.5	−0.2
State and local.....	5.6	4.3	−1.3	−3.5
<b>Addenda:</b>				
Final sales of domestic product.....	2.6	2.0	−0.6	−14.4
Gross domestic purchases price index.....	0.7	0.8	0.1	.....
GDP price index.....	0.8	1.0	0.2	.....

NOTE: The preliminary estimates for the first quarter of 2002 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

**Personal consumption expenditures:** Revised retail sales for October 2001 through March 2002 that include the incorporation (on a "best-change" basis) of data that reflect the 2000 Annual Retail Trade Survey, average unit value for domestic new autos for March (revised), and consumers' share of new-car and new-truck purchases for March.

**Nonresidential fixed investment:** Construction put-in-place for January and February (revised) and March, manufacturers' shipments of machinery and equipment for February and March (revised), and manufacturers' shipments of complete civilian aircraft for March.

**Residential fixed investment:** Construction put-in-place for January and February (revised) and March.

**Change in private inventories:** Manufacturing (other than semiconductors) and trade inventories

for February (revised) and March, revised retail and merchant wholesale inventories for December through February that include the incorporation (on a "best-change" basis) of data that reflect the 2000 Annual Retail Trade Survey, and the 2000 Annual Wholesale Trade Survey, and March.

**Exports and imports of goods and services:** Exports and imports of goods for February (revised) and March.

**Government consumption expenditures and gross investment:** Monthly Treasury Statement detailed data for March, General Services Administration data for computer contract awards for the first quarter, and State and local government construction put-in-place for January and February (revised) and March.

**Wages and salaries:** Employment, average hourly earnings, and average weekly hours for February and March (revised).

**GDP prices:** Detailed merchandise export and import price indexes for January through March (revised), unit-value index for petroleum imports for March, and housing prices for the first quarter.

## Corporate Profits

Profits from current production—which excludes nonoperating items, such as special charges and capital gains and losses, and which is based on depreciation of fixed assets and inventory withdrawals valued at current cost—increased 0.5 percent (quarterly rate) in the first quarter after increasing 17.9 percent in the fourth quarter (table 11).<sup>11</sup> Profits before tax—which are based on inventory and depreciation practices used in tax accounting—increased 3.7 percent after decreasing 9.0 percent.

The difference between the current-production measure and the tax-accounting measure mainly reflects provisions of the Job Creation and Worker Assistance Act of 2002, which allowed increased depreciation—and thus reduced profits—on a tax-accounting basis (see the [box](#), next page).

In both measures, the first-quarter estimate reflected settlement payments of \$9.8 billion (annual rate) to the States by tobacco companies; settlement payments had reduced the fourth-quarter estimates by \$9.0 billion.

Profits of domestic corporations increased substantially in the first quarter, though much less than in the fourth. Most of the first-quarter increase was accounted for by domestic affiliates of foreign corporations. Profits of these affiliates are subtracted in the calculation of profits from the rest of the world.<sup>12</sup> As a consequence of this offset, profits from current production (which include both domestic profits and profits from the rest of the world) increased only slightly. In contrast, most of the fourth-quarter increase in domestic profits occurred in industries that have relatively little foreign ownership.

For domestic nonfinancial corporations, the first-quarter increase mainly reflected a rise in unit profits, as unit costs decreased more than unit prices; an increase in the real output of these corporations also

boosted profits.<sup>13</sup> The increase in profits was spread across industry groups. Manufacturing, the transportation and utilities group, and “other” nonfinancial corporations all posted substantial increases; in contrast, the increases in wholesale and retail trade were small.

For domestic financial corporations, the increase was accounted for by profits of “other” financial corporations (such as real estate investment trusts and federally sponsored credit agencies) and of property and casualty insurance companies.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$10.8 billion after increasing \$78.5 billion.<sup>14</sup> The ratio of cash flow to nonresidential

13. “Output” here is nonfinancial corporate gross product. It is a measure of the contribution, or value added, of nonfinancial corporations to the Nation’s output, and it is measured as the sum of incomes generated by these businesses.

14. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

**Table 11. Corporate Profits**

[Seasonally adjusted at annual rates]

	Billions of dollars					Percent change (quarterly rate)				
	Level		Change from preceding quarter							
	2002		2001			2002				
	I	II	III	IV	I	II	III	IV	I	
<b>Profits from current production</b>	<b>826.1</b>	<b>-30.0</b>	<b>-62.8</b>	<b>125.0</b>	<b>4.1</b>	<b>-3.8</b>	<b>-8.3</b>	<b>17.9</b>	<b>0.5</b>	
Domestic industries.....	685.6	-33.9	-64.9	104.1	40.6	-5.2	-10.5	18.9	6.2	
Financial.....	199.8	-19.5	-29.3	46.9	16.8	-10.6	-17.7	34.5	9.2	
Nonfinancial.....	495.9	-14.4	-35.6	57.2	23.9	-3.1	-7.9	13.8	5.0	
Rest of the world.....	130.4	4.0	2.1	20.9	-36.6	2.9	1.5	14.3	-21.9	
Receipts (inflows).....	181.7	-7.0	-8.1	-3.7	-0.5	-3.5	-4.2	-2.0	-0.3	
Payments (outflows).....	51.2	-11.0	-10.2	-24.6	36.0	-18.0	-20.5	-61.7	236.1	
IVA.....	19.0	-6.9	11.9	13.5	2.4	.....	.....	.....	.....	
CCAdj.....	164.6	-5.7	-16.9	172.7	-21.5	.....	.....	.....	.....	
Profits before tax.....	642.4	-17.4	-57.7	-61.2	23.0	-2.3	-7.8	-9.0	3.7	
Profits tax liability.....	213.5	-8.8	-23.1	-10.8	19.4	-3.7	-10.1	-5.3	10.0	
Profits after tax.....	428.9	-8.6	-34.7	-50.4	3.7	-1.7	-6.8	-10.6	0.9	
<b>Profits from current production less tax liability</b>	<b>612.5</b>	<b>-21.2</b>	<b>-39.8</b>	<b>135.9</b>	<b>-15.4</b>	<b>-3.8</b>	<b>-7.5</b>	<b>27.6</b>	<b>-2.4</b>	
Cash flow from current production.....	986.3	-6.5	13.5	78.5	-10.8	-0.7	1.5	8.5	-1.1	
<b>Domestic industry profits:</b>										
Corporate profits of domestic industries with IVA.....	531.0	-28.4	-47.9	-68.6	62.1	-4.6	-8.2	-12.8	13.2	
Financial.....	201.7	-18.9	-29.9	27.8	20.5	-9.3	-16.3	18.1	11.3	
Nonfinancial.....	329.3	-9.5	-18.0	-96.4	41.6	-2.3	-4.5	-25.1	14.5	
<b>Dollars</b>										
Unit price, costs, and profits of nonfinancial corporations:										
Unit price.....	1.058	0.006	0.007	-0.008	-0.003	.....	.....	.....	.....	
Unit labor cost.....	0.703	0.004	0.007	-0.012	-0.006	.....	.....	.....	.....	
Unit nonlabor cost.....	0.263	0.005	0.008	-0.007	0.001	.....	.....	.....	.....	
Unit profits from current production.....	0.093	-0.003	-0.006	0.010	0.003	.....	.....	.....	.....	

NOTE: Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment  
CCAdj Capital consumption adjustment

11. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see “Selected NIPA Tables,” which begins on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

12. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA’s international transactions accounts.

fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, increased from 84.4 percent

to 85.7 percent, its highest value since the second quarter of 1996.

### Effects of the Job Creation and Worker Assistance Act of 2002

Estimates of corporate profits for the fourth quarter of 2001 and for the first quarter of 2002 reflect provisions of the Job Creation and Worker Assistance Act of 2002, which was signed into law on March 9, 2002. The following provisions relate to depreciation and to the carryback period for net operating losses:

- An immediate writeoff of 30 percent is allowed on certain investments contracted for after September 10, 2001, and before September 11, 2004;
- Tax benefits retroactive to September 11<sup>th</sup> are included for the area of New York City that was damaged in the terrorist attacks; and
- For tax year 2002 and for tax year 2001, the period for carrying back net operating losses is temporarily extended from 2 years to 5 years.

As a result of these provisions, the depreciation that corporations could claim in the first quarter increased by \$125.5 billion and, thus, profits before tax (PBT) were reduced by the same amount; in the fourth quarter, depreciation had been raised, and PBT reduced, \$146.5 billion (table A). (PBT is based on the inventory- and

depreciation-accounting practices used for Federal corporate income tax returns.) As a result, profits tax liability was reduced \$30.3 billion, and profits after tax were reduced \$95.3 billion.

Profits from current production were not affected by the act, because they do not depend on the depreciation-accounting practices used for Federal income tax purposes; instead, this measure of profits is based on an estimate of the value of fixed capital actually used up in the production process.<sup>1</sup> However, because the act did reduce tax liability, profits from current production *on an after-tax basis* were raised \$30.3 billion.

The capital consumption adjustment (CCAdj) is the difference between the depreciation specified in the tax code and the depreciation underlying profits from current production. Because the act raised tax depreciation \$125.5 billion, the CCAdj was increased by the same amount.

1. This estimate is derived by valuing assets at current cost and by using consistent depreciation profiles based on used-asset prices.

**Table A. Effects of the Job Creation and Worker Assistance Act of 2002 on Selected Measures of Corporate Profits**

[Seasonally adjusted at annual rates]

	Billions of dollars					Percent Change <sup>1</sup>	
	Level		Change				
	2001		2002	2001	2002	2001	2002
	III	IV	I	IV	I	IV	I
Profits before tax.....	680.6	619.4	642.4	-61.2	23.0	-9.0	3.7
Tax effect <sup>2</sup> .....		-146.5	-125.5				
Excluding tax effect .....	680.6	765.9	767.9	85.3	2.0	12.5	0.3
Tax liability.....	204.9	194.1	213.5	-10.8	19.4	-5.3	10.0
Tax effect <sup>2</sup> .....		-35.3	-30.3				
Excluding tax effect .....	204.9	229.4	243.8	24.5	14.4	12.0	6.3
Profits after tax.....	475.6	425.2	428.9	-50.4	3.7	-10.6	0.9
Tax effect <sup>2</sup> .....		-111.2	-95.3				
Excluding tax effect .....	475.6	536.4	524.2	60.8	-12.2	12.8	-2.3
Profits from current production <sup>2</sup> .....	697.0	822.0	826.1	125.0	4.1	17.9	0.5
Tax effect <sup>2</sup> .....		0.0	0.0				
Excluding tax effect .....	697.0	822.0	826.1	125.0	4.1	17.9	0.5
Profits from current production less tax liability <sup>2</sup> .....	492.0	627.9	612.5	135.9	-15.4	27.6	-2.4
Tax effect <sup>2</sup> .....		35.3	30.3				
Excluding tax effect .....	492.1	592.6	582.2	100.5	-10.4	20.4	-1.8

\* Based on preliminary estimates provided by the Treasury Department.

1. At quarterly rates.

2. Profits from current production are corporate profits with inventory valuation and capital consumption adjustments.

## Government Sector

The combined current surplus or deficit of the Federal Government and of State and local governments—the NIPA measure of net saving by government—shifted from a current surplus of \$122.2 billion in the fourth quarter to a current deficit of \$54.0 billion in the first quarter (table 12).<sup>15</sup> The shift was mostly attributable to a downturn in the Federal sector, but a downturn in the State and local current surplus also contributed.

### Federal

Primarily reflecting a sharp downturn in current receipts, the current surplus or deficit of the Federal Government shifted from a current surplus of \$97.4 billion in the fourth quarter to a current deficit of \$64.4 billion in the first quarter. In addition, current expenditures accelerated strongly.

**Current receipts.** Federal current receipts decreased \$101.7 billion in the first quarter after increasing \$119.6 billion in the fourth. The downturn was more than accounted for by a sharp downturn in personal tax and nontax receipts. In contrast, corporate profits tax accruals and contributions for social insurance turned up in the first quarter.

Personal tax and nontax receipts decreased \$129.9 billion after increasing \$134.6 billion. The sharp downturn was accounted for by personal income taxes, which decreased \$129.8 billion after increasing \$134.8 billion. Within personal taxes, nonwithheld income taxes decreased \$89.4 billion after increasing \$138.3 billion, reflecting the 2002 levels for refunds, final settlements, and back taxes.<sup>16</sup> Withheld income taxes decreased \$40.4 billion after decreasing \$3.6 billion, primarily reflecting the effect of the new 10-percent tax bracket established by the Economic Growth and Tax Relief and Reconciliation Act of 2001.

Corporate profits tax accruals increased \$16.6 billion after a decrease of \$11.0 billion. The upturn reflected the upturn in domestic corporate profits before tax.

Contributions for social insurance increased \$12.4 billion after decreasing \$3.2 billion. The upturn was mostly accounted for by an increase in the social security taxable wage base that boosted contributions by employers, employees, and the self-employed to the old-age, survivors, disability, and health insurance trust funds. Contributions to State unemployment insurance programs accelerated as a result of increases in the rate and in the wage base.

**Current expenditures.** Current expenditures increased \$60.1 billion in the first quarter after increasing \$8.6 billion in the fourth. The acceleration was accounted for by an acceleration in transfer payments, a smaller decrease in “subsidies less current surplus of government enterprises,” and an acceleration in consumption expenditures. Grants-in-aid to State and local governments decelerated.

**Table 12. Government Sector Current Receipts and Expenditures**  
(Billions of dollars, seasonally adjusted at annual rates)

	Level	Change from preceding quarter			
	2002	2001			2002
	I	II	III	IV	I
Current receipts .....	2,949.5	7.7	-177.2	133.5	-111.3
Current expenditures .....	3,003.5	27.3	42.5	-0.4	64.9
Current surplus or deficit (-) .....	-54.0	-19.6	-219.7	133.9	-176.2
Social insurance funds .....	89.0	-2.7	-8.8	-6.6	-8.6
Other .....	-143.1	-16.8	-211.0	140.5	-167.7
<b>Federal</b>					
Current receipts .....	1,925.0	4.1	-184.4	119.6	-101.7
Personal tax and nontax receipts .....	901.9	8.6	-162.8	134.6	-129.9
Corporate profits tax accruals .....	183.0	-7.7	-19.9	-11.0	16.6
Indirect business tax and nontax accruals .....	108.6	-0.2	-1.8	-0.7	-0.9
Contributions for social insurance .....	731.5	3.4	0.1	-3.2	12.4
Current expenditures .....	1,989.4	22.6	16.0	8.6	60.1
Consumption expenditures .....	551.3	2.6	3.6	11.3	26.3
National defense .....	370.7	1.2	3.6	4.8	22.8
Nondefense .....	180.5	1.4	0	6.4	3.5
Transfer payments (net) .....	895.3	11.6	15.3	14.5	42.2
To persons .....	875.5	10.5	14.6	9.6	35.0
To the rest of the world .....	19.9	1.3	0.6	4.9	7.3
Grants-in-aid to State and local governments .....	293.8	17.2	-14.8	18.6	8.8
Net interest paid .....	205.3	-11.0	-10.0	-13.4	-13.8
Subsidies less current surplus of government enterprises .....	43.6	2.2	21.9	-22.4	-3.5
Subsidies .....	35.2	0.1	20.7	-22.6	-2.9
Of which: Agricultural subsidies .....	11.8	-0.3	0.4	-3.4	-3.3
Less: Current surplus of government enterprises .....	-8.4	-2.1	-1.1	-0.3	0.7
Less: Wage accruals less disbursements .....	0	0	0	0	0
Current surplus or deficit (-) .....	-64.4	-18.6	-200.3	111.0	-161.8
Social insurance funds .....	89.2	-2.9	-8.8	-6.6	-8.5
Other .....	-153.7	-15.7	-191.4	117.5	-153.4
<b>State and local</b>					
Current receipts .....	1,318.3	20.9	-7.7	32.5	-0.8
Personal tax and nontax receipts .....	282.3	-2.4	6.8	2.7	-18.6
Corporate profits tax accruals .....	30.6	-1.1	-3.2	0.3	2.8
Indirect business tax and nontax accruals .....	700.7	6.9	3.3	10.8	6.2
Contributions for social insurance .....	11.0	0.3	0.2	0.1	0.1
Federal grants-in-aid .....	293.8	17.2	-14.8	18.6	8.8
Current expenditures .....	1,307.9	21.9	11.7	9.6	13.6
Consumption expenditures .....	1,006.3	14.6	9.9	6.5	8.6
Transfer payments to persons .....	303.9	5.4	4.5	4.8	6.3
Net interest paid .....	-1.2	-0.3	-0.1	-0.2	-0.1
Less: Dividends received by government .....	0.4	0	0	0	0
Subsidies less current surplus of government enterprises .....	-0.7	2.2	-2.6	-1.5	-1.2
Subsidies .....	9.5	2.5	-3.2	-1.4	-1.0
Less: Current surplus of government enterprises .....	10.2	0.3	-0.6	0.1	0.2
Less: Wage accruals less disbursements .....	0	0	0	0	0
Current surplus or deficit (-) .....	10.4	-1.0	-19.4	22.9	-14.4
Social insurance funds .....	-0.2	0.1	0.1	0	-0.1
Other .....	10.6	-1.2	-19.4	22.9	-14.3
<b>Addendum:</b>					
Net lending or net borrowing (-) <sup>1</sup> .....	-165.5	-34.0	-205.7	107.6	-180.8
Federal .....	-89.2	-26.0	-208.0	109.9	-165.7
State and local .....	-76.3	-8.0	2.3	-2.3	-15.1

15. Net saving equals gross saving less consumption of fixed capital. These estimates are shown in NIPA table 5.1.0.

16. For a description of methodology for quarterly personal income taxes, see Eugene P. Seskin, “Annual Revision of the National Income and Product Accounts,” SURVEY 78 (August 1998): 29–31.

1. Net lending or borrowing is conceptually similar to net financial investment in the flow-of-funds accounts prepared by the Board of Governors of the Federal Reserve System. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government's railroad retirement and veterans life insurance programs.

“Transfer payments (net)” increased \$42.2 billion after increasing \$14.5 billion. The acceleration was primarily accounted for by transfer payments to persons, which increased \$35.0 billion after a \$9.6 billion increase. The step-up mainly reflected a 2.6-percent cost-of-living adjustment that boosted benefits \$12.5 billion for social security (old-age, survivors, disability, and health insurance), veterans pensions, supplemental security income and other programs. Transfer payments to the rest of the world increased \$7.3 billion after increasing \$4.9 billion; the acceleration was more than accounted for by a payment of \$2.4 billion (\$9.6 billion at an annual rate) to Israel for economic support.

“Subsidies less current surplus of government enterprises” decreased \$3.5 billion after decreasing \$22.4 billion. Subsidies decreased \$2.9 billion after decreasing \$22.6 billion; the large fourth-quarter decrease followed substantial payments of subsidies to the airline industry in the third quarter. The current surplus of government enterprises, which is an offset to subsidies, increased \$0.7 billion after a \$0.3 billion decrease. Within enterprises, the current surplus of the U.S. Postal Service increased \$0.4 billion after a \$0.3 billion decrease.

Consumption expenditures increased \$26.3 billion after a \$11.3 billion increase. The acceleration was more than accounted for by defense consumption expenditures, which increased \$22.8 billion after increasing \$4.8 billion. Within defense consumption expenditures, services accelerated, increasing \$21.4 billion after a \$6.4 billion increase. Within services, “other services” (which includes expenditures for research and development, for weapon support, for installation support, and for personnel support), increased \$12.5 billion after a \$3.3 billion increase. Compensation of employees increased \$8.4 billion after a \$2.8 billion increase; the acceleration was more than accounted for by the January 2002 pay raise, which boosted compensation \$7.5 billion. Expenditures for durable goods turned up, increasing \$0.4 billion after a \$1.4 billion decrease; spending on parts for missiles and ships turned up. Nondurable goods increased \$1.0 billion after decreasing \$0.2 billion; the upturn was more than accounted for by upturns in spending for petroleum products and for ammunition.

Nondefense consumption expenditures increased \$3.5 billion after an increase of \$6.4 billion. The deceleration was mostly accounted for by a downturn in nondurable goods and a deceleration in services. Nondurable goods decreased \$0.1 billion after increasing \$1.8 billion; the downturn largely reflected a downturn in Commodity Credit Corporation inventory change. Services increased \$3.7 billion after an increase of \$4.4

billion; a downturn in “other services” was partly offset by an acceleration in compensation. “Other services” decreased \$0.6 billion after increasing \$2.7 billion. Compensation of employees increased \$3.6 billion after increasing \$1.1 billion; compensation was boosted \$2.5 billion by the January 2002 pay raise.

Grants-in-aid to State and local governments decelerated, increasing \$8.8 billion after increasing \$18.6 billion. Grants for State Medicaid programs, for housing and community services, for health and hospitals (including payments to States for children’s health insurance programs), and for labor training and services turned down.

### State and local

The State and local government current surplus decreased \$14.4 billion in the first quarter after increasing \$22.9 billion in the fourth. Current receipts turned down, and current expenditures accelerated.

**Current receipts.** State and local government current receipts decreased \$0.8 billion after increasing \$32.5 billion. The downturn was mostly accounted for by a downturn in personal tax and nontax receipts and by decelerations in Federal grants-in-aid and in indirect business tax and nontax accruals. In contrast, corporate profits tax accruals accelerated.

Personal tax and nontax receipts decreased \$18.6 billion after increasing \$2.7 billion. The downturn was more than accounted for by personal income taxes, which decreased \$19.5 billion after increasing \$1.9 billion.

Indirect business tax and nontax accruals increased \$6.2 billion after increasing \$10.8 billion. The deceleration was more than accounted for by sales taxes, which increased \$1.7 billion after increasing \$7.6 billion; this deceleration reflected the deceleration in general sales taxes in the first quarter.

Corporate profits tax accruals increased \$2.8 billion after increasing \$0.3 billion, reflecting the upturn in domestic corporate profits before tax.

**Current expenditures.** Current expenditures increased \$13.6 billion after increasing \$9.6 billion. The acceleration was mostly accounted for by accelerations in consumption expenditures and in transfer payments.

Consumption expenditures increased \$8.6 billion after increasing \$6.5 billion. The acceleration was more than accounted for by nondurable goods, which increased \$1.2 billion after decreasing \$5.3 billion. Within nondurable goods, petroleum products turned up.

Transfer payments to persons increased \$6.3 billion after an increase of \$4.8 billion. The acceleration was



accounted for by a step-up in Medicaid transfer payments which increased \$5.3 billion after increasing \$3.7 billion.

### **Net lending or net borrowing**

“Net lending or net borrowing (–)” is an alternative measure of the government fiscal position. Net lending is the financing requirement of the government sector and is derived as the current surplus plus the consumption of fixed capital and “capital transfers received (net)” less gross investment and net purchases of nonproduced assets.

The government financing requirement shifted from net lending of \$15.3 billion in the fourth quarter

to net borrowing of \$165.5 billion in the first quarter, reflecting the shift in the Federal Government financing requirement. State and local government net borrowing continued to decrease in the first quarter.

Government gross investment increased \$10.8 billion after increasing \$25.7 billion. The deceleration was mostly attributable to State and local government gross investment, which increased \$8.5 billion after increasing \$21.0 billion. The deceleration was mostly accounted for by investment in structures, which increased \$9.8 billion after increasing \$22.0 billion; the large increase in the fourth quarter followed a large decrease in the third quarter that reflected the leasing of the World Trade Center (see footnote 6).